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Agenda Item 6a

August 16, 2011

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. **SUBJECT:** Long-Term Care Valuation and Program Update
- II. **PROGRAM:** Long-Term Care
- III. **RECOMMENDATION:** Information
- IV. **ANALYSIS:**

The purpose of this agenda item is to provide the Health Benefits Committee (HBC) with the results of the CalPERS Long-Term Care (LTC) Program third-quarter financial report as of March 31, 2011, provided by United Health Actuarial Services, Inc. (UHAS) and to provide a Program update.

Long-Term Care Program Third-Quarter Financial Report

An evaluation of current assets and premium levels was conducted by UHAS as well as updating the projection of future cash flows.

Quarterly updates have been provided to allow the HBC to track the impact of the recently implemented rate increases and overall program performance. Results of this latest valuation are based on the in force data and fund balance as of March 31, 2011. The results are expressed as a percentage of the present value of future net liabilities compared to future premiums. A positive percentage indicates the premiums are adequate to fund the future projected benefits.

Key Findings

UHAS performed two separate valuation scenarios. The first used the 7.79 percent discount rate which was in effect on March 31, 2011. The second used a 6.25 percent discount rate to reflect the implications of the Investment Committee's action to adopt an interim one-year policy portfolio for the LTC investment program on May 16, 2011. Additionally, absent other direction from the HBC, UHAS has assumed that the 2009 approved rate increases of 5 percent annually for members with LTC1 policies with lifetime benefits and inflation protection will continue.

| Valuation Date | Results | Investment / Discount Rate |
|----------------|---------|--------------------------------------|
| 3/31/2011 | 34.64% | 7.79% |
| 3/31/2011 | 17.48% | 6.25% years 1-10; 7.60% years 11+ |

As shown above, Program valuation margin is 34.64 percent assuming a 7.79 percent discount rate. Alternatively, Program valuation margin is 17.48 percent assuming a 6.25 percent discount rate for 10 years and then a 7.60 percent discount rate for years 11+.

Cash flows during the period July 2010 to March 2011 exceeded expectations by \$325.1 million mostly due to positive investment returns. Shock lapse and conversion assumptions from the 2010 annual valuation are consistent with actual experience and additional shock lapses and conversions would likely have a positive impact on the Program.

In May 2011, the Investment Committee adopted an interim one-year policy portfolio for the LTC Program Fund. The portfolio chosen was "P4", which slightly reduces the overall risk profile. The discount rate associated with this portfolio has not yet been developed or approved by the HBC; however, a preliminary discount rate of 6.25 percent for 10 years and 7.60 percent for years 11+, which represents best-estimate return expectations for this portfolio, was used for this alternative valuation. We will return to the HBC with a revised discount rate recommendation during the next annual valuation planned for December.

In summary, current program valuation remains positive using a discount rate of 7.79 percent or a reduced discount rate of 6.25 percent for 10 years and 7.60 percent discount for years 11+.

Long-Term Care Program Update

Staff are considering implementing two LTC Program innovations:

1. Univita Living is a web-based tool designed to help members and their families maintain their independence by providing access to the following:
 - Independence Assessments allowing members to answer online questions to evaluate dimensions of independence such as health, social connection, living environment and financial preparedness;

- Personalized recommendations for action planning to reach independence goals;
- More than 200,000 qualified providers in the areas of daily care, transportation services, skilled nursing, and much more;
- A social network that provides members, their families, friends and caregivers the opportunity to participate in the members care, whether they live around the corner or across the country; and,
- A library of helpful information on a wide variety of independent aging issues.

Program staff has worked closely with CalPERS Public Affairs Office, Information Services Office, HIPAA Compliance Office and Legal Office to determine the compliance parameters Program and Univita must comply with prior to launching Univita Living.

On July 7, 2011, Program staff met with Univita. At Staff's request, Univita presented the Univita Living program, their implementation and engagement project plan, and an implementation questionnaire for review and completion by CalPERS. Univita Living is tentatively scheduled for launch in Fall 2011.

2. The LTC Data Study is designed to investigate the impact of the LTC Program on medical care costs. The study focuses on determining if the use of LTC Program benefits and the access these benefits provide for personal care services in the home and in assisted living facilities, improves healthcare utilization patterns, and reduces the overall healthcare cost for CalPERS LTC members. The study began the first-quarter of 2011 and is planned to conclude the first-quarter of 2012. The report will be peer reviewed and be prepared for our review during the second quarter of 2012.

Univita Living and the LTC Data Study are part of the Program and Univita's ongoing efforts to identify opportunities to better manage services to Program members.

Long-Term Care Request for Proposal

The LTC Request for Proposal (RFP) is scheduled for release by the end of August 2011. The RFP will be designed to solicit qualified bidders who are capable of providing full-service LTC Program administration and services in alignment with CalPERS LTC framework.

V. STRATEGIC PLAN:

This item relates to Strategic Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VI. RESULTS/COSTS:

Costs associated are within the current terms of the agreement.

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ANN BOYNTON
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Attachment